

Agricultural and Agrarian Insurance Board -2013

The audit of Financial Statements of the Agricultural and Agrarian Insurance Board for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act, No.38 of 1971 and Section 28 of the Agricultural and Agrarian Insurance Act, No. 20 of 1999. My comments and observations which I consider should be published with the annual report of the Board in terms of Section 14 (2) (c) of the Finance Act, appear in this report.

1.2 Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards (LKAS) and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor’s Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000 -1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Board’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Sub-sections (3) and (4) of the Section 13 of the Finance Act, No 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the Audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effect of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the Agricultural and Agrarian Insurance Board as at 31 December 2013 and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Accounting Standards(LKAS)

The following observations are made.

- (a) Staff loans amounting to Rs.38, 156,662 had not been recognized and measured as financial assets in terms of LKAS 39.
- (b) Actuarial valuation and accounting had not been done for the define benefit plan and the contribution had not been invested by the employer in order to discharge the obligation under a defined benefit plan in terms of LKAS 19.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) The insurance income receivable aggregating to Rs. 9,444,432 had not been taken in to account for the year under review. As a result, the insurance income receivable and the insurance commission payable had been understated by Rs. 9,444,432 and Rs.377,778 respectively.
- (b) The insurance income receivable for the previous year amounting to Rs.1,533,034 had been recognized as insurance income for the year under review and the insurance income receivable for the year under review totalled Rs.1,615,560 had been omitted in the accounts.
- (c) Administration expenditure for the year under review had been understated by Rs.447,783 in the financial statement and as a results deficit of the year had also been understated by the same amount.

- (e) A sum of Rs.256,520 receivable from a Government Ministry with regard to transfer of assets to that Ministry had been omitted in the accounts.
- (f) Provision for bad and doubtful debt shown in the financial statements had been overstated by Rs.1,872,818 due to applied the incorrect accounting practice.
- (g) Farmers Trust Fund loan account balances amounting to Rs.274,500 had been understated as a result of debiting the interest payment made to the loan account.
- (h) Interest income amounting to Rs.22,617,530 which had been charged against the loan receivable from Farmer’s Pension Fund had not been recognized as an income for the year under review.

2.2.3 Unexplained Differences

The following observations are made,

The following unexplained differences were observed between the amounts shown in the detailed schedules of the Development Branch and the amounts shown in financial statements as at 31 December 2013 in respect of revenue and indemnity payments.

Items	Amount as per the financial statements	Amount as per detail schedules of the Development Branch	Difference (after commission)
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	Rs.	Rs.	Rs.
<u>Revenue</u>			
Livestock	8,897,267	7,419,539	1,477,728
Suwesetha and Life	1,266,494	784,535	481,959
Agri Equipment	436,918	736,683	(299,765)
<u>Indemnity Payments</u>			
Livestock	6,785,703	6,821,637	(35,934)
Paddy	150,022,999	118,647,831	31,375,168
Subsidiary crop	9,462,221	25,031,666	(15,569,445)
Suwesetha and life	117,723	107,613	10,110

2.2.4 Accounts Receivable and Payable.

The following observations are made,

- (a) Loan and advance balances of employees’ aggregating to Rs. 1,628,832 had remained in the accounts without being recovered for a long period. Further, out of that a sum of Rs.950,185 had remained outstanding for more than 5 years .

- (b) Gratuity payable to the deceased employees aggregating to Rs.320,944 were remained in the accounts for a long period without being settled.
- (c) A sum of Rs. 295,446,605 given to the Farmer's Pension Fund during the period from 2010 to 2013 for the payment of farmers pensions had not been recovered from the relevant Fund even up to end of the year 2013.
- (d) A sum of Rs.1,477,336 payable to a private company had remained in the accounts since 2010 without being settled.
- (e) Outstanding salary amounting to Rs.342,023 recoverable from the temporary released employees to the Ministry of Sports and Ministry of National Language and Social Integrity had not been recovered by the Board.

2.3 **Non-compliance with Laws, Rules, Regulations and Management Decisions**

The following instances of non-compliance were observed in audit.

(a) Treasury Circulars

- (i) Management Services Circulars No.30 of 22 September 2006 and No.30 (I) of 01 June 2009 Salary scales relevant to the promoted employees had been paid for 2 non-promoted employees contrary to the provisions in these Circulars.
- (ii) Management Services Circular No.30 (II) of 09 September 2009 At the audit test check revealed that an over payment of Rs.151,610 had been made to 07 employees due to calculation of salary conversion contrary to the provisions in the Circular.

(b) Financial Regulation

- (i) Financial Regulation 371 (2) (b) Ad hoc sub imprest amounting to Rs.495,000 had been paid exceeding prescribed limit of Rs.20,000 in 16 instances.

Settlement of advances amounting to Rs.160,500 had been delayed in 9 instances.

In three instances, miscellaneous advances amounting Rs.153,500 had been given to an officer without being settled the previous advances.

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| (ii) Financial Regulation 751 | Inventory Register had not been maintained properly to identify the balances of each item separately. |
| (iii) Financial Regulation 454 | Separate inventory register for each Sections of the Board had not been maintained as requested. |

3. **Financial Review.**

3.1.1 **Financial Results**

According to the financial statements presented, the operations of the Board during the year under review had resulted in a deficit of Rs.150,920,566 before taking into account the Government grant for administrative expenses, as compared with the corresponding deficit of Rs.78,743,127 for the preceding year, thus showing a deterioration of Rs. 72,177,439 in the financial results. The decrease of income and increase of expenditure by Rs. 29,120,018 and Rs.43,057,421 respectively as compared with previous year had mainly attributed for this deterioration.

3.1.2 **Analytical Financial Review**

According to the financial statements and information made available for audit, the surplus of preceding 5 years and the year under review before taking into accounts the Government grants had been gradually decreased except for the year 2011. Details are shown below.

	2013	2012	2011	2010	2009	2008
	Rs.Mn.	Rs.Mn.	Rs.Mn.	Rs.Mn.	Rs.Mn.	Rs.Mn.
Total Income	109	139	175	128	114	96
Total Expenditure	260	217	150	361	121	134
Surplus/(Deficit) before Government Grant	(151)	(78)	25	(233)	(7)	(38)
Government Grant	69	63	63	85	75	42
Surplus/(Deficit)After Government Grant	(82)	(15)	88	(148)	68	4

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ing to the above information it was observed that the ability of the Board to continue as a going concern without the financial assistance from the General Treasury is in doubtful.

4. Operating Review

4.1 Performance

Administration of Insurance Schemes

According to the information made available, the following statement shows the physical and financial performance of the Insurance Schemes for the year under review and the previous year.

Item	Measure	Targets				Achievements				Achievements as a percentage of targets (%)			
		Physical		Financial		Physical		Financial		Physical		Financial	
		2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
				Rs.(000)	Rs.(000)			Rs.(000)	Rs.(000)	%	%	%	%
1. Crop Insurance													
(a) Paddy	Acres	88,428	97,290	90,107	85,897	49,10	66,35	57,386	77,931	55.53	68.20	63.69	90.73
(b) Chilies	Acres	967	490	1,289	1,583	360	206	657	825	37.23	42.00	50.97	52.12
(c) Big Onion	Acres	1,364	1,125	4,450	3,328	1,233	1,538	4,364	4,086	90.40	136.71	98.07	122.7
(d) Coconut	Acres	270	193	267	304	-	-	-	-	-	-	-	-
(e) Sugar Cane	Acres	323	1,200	482	2,000	30	-	73	-	9.29	-	-	-
(f) Maize	Acres	9,922	12,530	17,917	19,208	6,857	6,618	12,856	10,441	69.11	52.81	71.75	54.87
(h) Flower Plant	Nos.	110,030	5,050	201	201	-	-	-	-	-	-	-	-
(j) Potato	Acres	800	1,280	2,000	3,200	824	732	3,815	2,886	103.0	57.18	190.7	90.00
(k) Other Crop	Acres	9,403	9,435	12,591	10,866	2,055	2,909	2,187	2,841	22.00	31	17.36	26.00
(l) Vegetable	Acres	225	400	7,002	1,200	540	631	819	937	240.0	157.75	11.70	78.00
2. Livestock													
Cattle	Nos.	9,428	10,096	21,604	23,381	3,077	4,856	6,637	11,899	32.63	48.09	30.72	50.89
Goat	Nos.	9,857	9,168	6,570	4,305	1,227	2,261	783	1,205	12.45	24.6	11.92	27.99
3. Stores													
	Nos.	464	860	3,028	3,810	0	17	0	238	0.00	1.97	0.00	6.25

4. Agri Equipment	Nos.	3,450	4,109	13,559	13,625	87	316	736	4,484	2.52	7.69	5.44	32.91
5. Suwasetha	Nos.	27,576	33,715	16,349	14,946	1,566	2,013	785	1,040	5.68	5.97	4.80	6.90
6. Life Insurance	Nos.	19,365	21,931	18,214	18,185	686	1,433	584	1,157	3.54	6.53	3.21	6.36

The following observations are made in this regard.

- (a) The achievement of physical targets of the Insurance Schemes such as Chilies, Sugar Cane, Other Crop, Goat, Cattle, Stores, Agri Equipment, Life Insurance and Suwasetha and Life Insurance were less than 50 per cent.
- (b) The achievement of financial targets of insurance schemes such as Other Crop, Vegetable, Cattle, Goat, Stores, Agri Equipment, Life Insurance and Suwasetha had been below 50 per cent.
- (c) Even though the physical and financial targets for Flower Plant, Coconut, Sugar Cane and Stores insurance had been set out, no any insurance had been done during the year under review.

4.2 Delays in Projects

An expenditure of Rs.585,800 had been incurred in the year 2008 for the development of a land to construct a building and shown as a capital advance in the financial statements of the year. However, the land had remained idle for a long period without being constructed any building.

4.3 Irregular Use of Assets Belonging to Other Institutions

Seven Jeeps belonging to other institutions had been irregularly used by the Board for a long period without being transferred the ownership of the vehicles.

4.4 Contractual Agreements

A sum of Rs.10,002,888 (excluding VAT) had been paid as rent for a building in the year under review without entering into an agreement with the owner of the building after expiration of the previous agreement on 31 December 2012.

4.5 Human Resources Management

It was observed that 103, 88 and 126 vacancies were existed as at the end of the years 2011, 2012 and 2013 respectively in the Executive, Non-executive and Minor levels as compared with the approved cadre. However meaning full actions had not been taken to fill these vacancies.

5 Accountability and Good Governance

5.1 Delay in the presentation of Financial Statements

According to the Paragraph 6.5.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003, the financial statements of the Board for the year under review should be submitted to the Auditor General within 02 months after the close of the financial year. However, the financial statements for the year under review had been submitted for audit only on 10 April 2014.

5.2 Corporate Plan

Even though the Board had prepared a Corporate Plan for the period 2014 – 2016, it had not been updated during the year 2013 in terms of Section 5.1.3 of the Department of Public Enterprises Circular No. PED/ 12 of 02 June 2003

5.3 Budgetary Control

Significant variances were observed between the budgeted income and expenditure and the actual income and expenditure for the year 2013, thus indicating that the budget had not made use of as an effective instrument of internal control.

6 Systems and Controls

Deficiencies observed in systems and controls during the course of audit were brought to the notice of the Board from time to time. Special attention is needed in respect of the following areas of control.

- (a) Accountings
- (b) Receivables and Payables
- (c) Utilization of Vehicles
- (d) Budget
- (e) Personnel Management
- (f) Corporate Plan and Action Plan